



# Republican Policy Committee

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## **CBO Estimates Clinton's Latest Budget Again Falls Short**

### **Clinton's Ninth Unbalanced Budget**

Once again President Clinton has offered America a budget that mortgages America's future by failing to eliminate the deficit. The Congressional Budget Office (CBO) released its estimate of the President's latest budget last week. The verdict? For an unbelievable ninth time in his presidency, Clinton has produced a budget that does not balance.

*"The President presented a set of policy changes intended to eliminate the deficit in the budget he submitted in March. Under CBO's more cautious economic and technical assumptions, the basic policies outlined in the President's budget would bring down the deficit to about \$80 billion by 2002 instead of producing the budget surplus that the Administration estimates."*  
[June E. O'Neill, CBO Director, April 17, 1996].

What's more, once Clinton's latest budget is analyzed as the sum of its parts, it is found to produce \$200 billion more spending, no net tax relief, and virtually no deficit reduction at all.

### **The Failure of This Unbalanced Budget**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Baseline Deficit</b>	144	165	175	182	191	194	210
<b>Clinton Real Deficit</b>	146	156	153	125	108	87	81
<b>Clinton Gimmick Deficit</b>	146	155	152	123	105	54	-3

- ▶ President Clinton would actually increase the current year's deficit under his budget.
- ▶ Under the President's real deficit scenario — that is, his budget as scored "under CBO's more cautious economic and technical assumptions" — only \$65 billion would be trimmed over seven years.

✓ Less than \$7 billion per year in deficit reduction will leave an \$81 billion deficit in 2002.

✓ That's less than a 50-percent deficit reduction.

- Even that little amount of deficit reduction is overly optimistic because of the fact that CBO has imbedded in the basis of its calculations a "fiscal dividend" — the positive economic effect of balancing the budget.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Fiscal Dividend</b>	NA	5	19	37	53	64	75
<b>Clinton Real Deficit</b>	146	156	153	125	108	87	81

✓ Obviously if the budget is not balanced, that "fiscal dividend" should not be counted. As CBO states: *"Of course, the full amount of the savings from the fiscal dividend would result only if the budget was in fact balanced."*

✓ Without the "fiscal dividend," Clinton's budget deficit would be \$156 billion in 2002.

✓ That \$156 billion deficit in 2002 is higher than the deficit is today.

- The President's gimmick-filled deficit reduction scheme proposes deficit reduction of \$149 billion over seven years: from a \$146 billion deficit in 1996 to a \$3 billion surplus in 2002.

✓ Yet, his gimmick-filled scheme yields virtually the same deficit reduction by the year 2000 (which would coincide with the end of a second term) as would take place under his deficit-maintaining scenario (as scored by CBO): that is, \$108 billion in 2000 vs. \$105 billion. All the tricks would come into play in those last years.

✓ In fact, the deficit reduction amounts to only \$41 billion over the next four years — a less than one-third reduction.

✓ The President would have America believe that after he would have left office, more than two-thirds of all the deficit reduction would take place in those last two years.

## Hundreds of Billions in Additional Spending

CBO also estimated that Clinton's latest budget, without its gimmicks, spends \$200 billion more than the White House originally claimed.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Total</u>
Clinton Claim	1,572	1,635	1,676	1,717	1,761	1,812	1,868	12,041
CBO Estimate	1,574	1,633	1,702	1,744	1,797	1,855	1,934	12,239
Difference	2	-2	26	27	36	43	66	198

## The Broken Promise — No Tax Cut

President Clinton has been promising a tax cut for five years. Despite his claim to have delivered one in his latest budget, CBO reveals otherwise.

- ▶ Once his tax-and-fee increases are subtracted from his tax cut, there is ostensibly a \$38 billion tax cut over seven years remaining.
- ✓ However, as the Senate Budget Committee points out, even that is too much for Clinton to leave in America's pockets. Clinton proposes ending the tax cuts in the year 2000 if the deficit is still in place — and CBO has testified it will be.
- ✓ The loss of those tax cuts in the final two years amounts to \$32 billion. Add that to the gimmick of waiting to auction part of the FCC spectrum (\$6 billion), and the tax cut is virtually wiped out.

## The Consequences of This Budget: Deficits Increase as a Percent of GDP

And the deficits would rise after that. CBO, in one scenario, accepts the unrealistic assumption that mounting deficits would not have an adverse impact on the overall economy, and states:

*"Even without assuming any economic feedback effects from increasing deficits, one seemingly plausible path of revenues and spending (with discretionary spending growing at the rate of the economy after 2006) would produce a deficit that equals 12 percent of GDP by 2025 and debt held by the public equal to 135 percent of GDP."*

To put that in perspective:

- ▶ As a percentage of GDP, the deficit in 2025 would be six times larger than it was in 1995.
- ▶ As a percentage of GDP, debt held by the public would almost triple from its 1995 level.
- ▶ Forestalling such a scenario by increasing taxes would require a 25-percent tax hike.

Of course, rising deficits *would* adversely affect the economy via falling revenues and rising spending: adding in the economic impact, the deficit would be **20 percent of GDP** by 2025.

The consequences of such fiscal irresponsibility are staggering. As CBO's June O'Neill testified last week, *"the mounting deficits could seriously erode future economic growth."* Conversely, *"permanently balancing the budget could raise real incomes in the United States by 10 percent to 15 percent by 2025 and by larger percentages in years thereafter."*

### **Nine Budgets Out . . . of Balance**

Just a few weeks ago, President Clinton threw out the first ball to start the baseball season. He should have thrown out this budget as well. A few years ago a movie was produced, entitled "Nine Men Out." It documented the "Black Sox scandal" of the 1919 World Series in which Chicago conspired with gamblers to lose the series. Similarly, President Clinton is trying to pull off another such hoax with this budget. The only difference here is that instead of nine men out, we have nine budgets out . . . of balance — a spectacle at least as shameful as that of the Black Sox.

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